

17 JUL 1961

3407

NIE 38.1-61

11 July 1961

~~SECRET~~

*Matthias*

# NATIONAL INTELLIGENCE ESTIMATE NUMBER 38.1-61

(Supersedes Relevant Portions of NIE 55-59)

## THE OUTLOOK FOR NEPAL

Submitted by the  
**DIRECTOR OF CENTRAL INTELLIGENCE**

*The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.*

Concurred in by the  
**UNITED STATES INTELLIGENCE BOARD**

*on 11 July 1961. Concurring were The Director of Intelligence and Research, Department of State; the Assistant Chief of Staff for Intelligence, Department of the Army; the Assistant Chief of Naval Operations (Intelligence), Department of the Navy; the Assistant Chief of Staff, Intelligence, USAF; the Director for Intelligence, Joint Staff; the Assistant to the Secretary of Defense, Special Operations; and the Director of the National Security Agency. The Atomic Energy Commission Representative to the USIB, and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.*

DOCUMENT NO. 1  
NO CHANGE IN CLASS. 1  
☒ DECLASSIFIED  
CLASS. CHANGED TO: TS S C  
NEXT REVIEW DATE: \_\_\_\_\_  
AUTH: HR 70-2  
DATE: 9 Oct 81 REVIEWER: 009256

~~SECRET~~

Nº 362

## CENTRAL INTELLIGENCE AGENCY

### DISSEMINATION NOTICE

1. This estimate was disseminated by the Central Intelligence Agency. This copy is for the information and use of the recipient and of persons under his jurisdiction on a need to know basis. Additional essential dissemination may be authorized by the following officials within their respective departments.

- a. Director of Intelligence and Research, for the Department of State
- b. Assistant Chief of Staff for Intelligence, Department of the Army
- c. Assistant Chief of Naval Operations (Intelligence), for the Department of the Navy
- d. Director of Intelligence, USAF, for the Department of the Air Force
- e. Director for Intelligence, Joint Staff, for The Joint Staff
- f. Director of Intelligence, AEC, for the Atomic Energy Commission
- g. Assistant Director, FBI, for the Federal Bureau of Investigation
- h. Assistant to the Secretary of Defense, Special Operations, for the Department of Defense
- i. Director of NSA for the National Security Agency
- j. Assistant Director for Central Reference, CIA, for any other Department or Agency

2. This copy may be retained, or destroyed by burning in accordance with applicable security regulations, or returned to the Central Intelligence Agency by arrangement with the Office of Central Reference, CIA.

3. When an estimate is disseminated overseas, the overseas recipients may retain it for a period not in excess of one year. At the end of this period, the estimate should either be destroyed, returned to the forwarding agency, or permission should be requested of the forwarding agency to retain it in accordance with IAC-D-69/2, 22 June 1953.

4. The title of this estimate when used separately from the text should be classified:  
**FOR OFFICIAL USE ONLY**

### WARNING

This material contains information affecting the National Defense of the United States within the meaning of the espionage laws, Title 18, USC, Secs. 793 and 794, the transmission or revelation of which in any manner to an unauthorized person is prohibited by law.

#### DISTRIBUTION:

White House  
National Security Council  
Department of State  
Department of Defense  
Atomic Energy Commission  
Federal Bureau of Investigation

~~SECRET~~

## THE OUTLOOK FOR NEPAL

### THE PROBLEM

To estimate probable developments in Nepal and in Nepal's relations with India, the Communist countries, and the West during the next few years.

### CONCLUSIONS

1. Nepalese political developments in the near future are likely to be centered on the conflict between King Mahendra and the Nepali Congress Party exile movement. The King has not demonstrated the qualities of leadership necessary for the difficult tasks that face him. Nevertheless, he has a number of factors in his favor, notably his control of the country's security forces. (*Paras. 8-14*)

2. The Nepali Congress exile movement, which is led by former Deputy Prime Minister Subarna Shumshere, has developed only limited strength to date in its campaign to end the King's direct rule. Most of the party's leaders, including former Prime Minister B. P. Koirala, are under arrest. However, the Nepali Congress is in the best position to take advantage of the political unrest that is likely to develop under the King's rule, but its ability to do so will depend on its success in securing army support or passivity. The 10,000 man army presently appears loyal to the King, but if faced with continued political deterioration the army might throw its support to the Nepali Congress,

seize power itself, or force the King to compromise with the opposition movement. Considering all factors, Mahendra's government is unlikely to remain in power beyond another year or two. (*Paras. 15-16, 18-19*)

3. The Communist Party of Nepal has a limited but growing ability to influence events in Nepal. The party has let the Nepali Congress take the initiative against the King while it concentrates on improving its organization and infiltrating governmental and other organizations. Conditions in Nepal will provide growing opportunities for the Nepalese Communists. (*Paras. 17, 20*)

4. Nepal has had little success in developing its subsistence economy to date, and the outlook for any significant economic growth during the next few years is poor. Its development efforts will continue to be almost entirely dependent on foreign aid. However, a lack of economic progress is unlikely to have serious political repercussions in the near future. (*Paras. 21-23*)

~~SECRET~~

5. Virtually all Nepalese leaders are convinced that Nepal should follow a neutralist foreign policy, particularly in the UN. Mahendra, however, is more suspicious of India than are the Nepali Congress leaders, and is likely to continue to follow a more cooperative though still cautious policy toward Communist China, which the Chinese Communists have reciprocated. The King appears convinced that he can use the threat of reliance on the Chinese to keep India from gaining too strong an influence in Nepal. (*Paras. 24-26*)

6. India's major interest in Nepal is to preserve the country's integrity as a key element in the Indian security position.

India is likely to encourage Mahendra to reach a compromise with the Nepali Congress, although in the event of an extended struggle Indian support is likely to be increasingly engaged on the side of the Nepali Congress. Nevertheless, we believe that India will pursue a cautious course for fear that Mahendra, if pushed too far, might rely more heavily on Chinese support to stay in power. (*Paras. 27-28*)

7. Nepalese relations with the West are likely to remain relatively good. Nepal will continue to rely on the US for substantial aid for its development program. (*Para. 29*)

## DISCUSSION

8. King Mahendra's abrupt dismissal of the Nepali Congress Party Government in December 1960 ended the country's first brief experiment with representative government. This experiment followed eight years of highly unstable government during which the King sometimes ruled directly and sometimes through political leaders of his choosing. The King eventually decided to accommodate the growing pressure for representative government, and Nepal's first national elections were held in mid-1959. The Nepali Congress Party, a moderate socialist party composed mainly of small landholders and middle class elements, won two-thirds of the parliamentary seats and took office under Prime Minister Koirala.

9. The division of power between the King—who retained extensive powers under the constitution—and the Nepali Congress Party Government made friction almost inevitable. However, during the first year after the elections both sides appeared aware of the need for cooperation to prevent a return of political instability. The government took some

promising steps in the direction of social and economic reform. However, Prime Minister Koirala offended the King who came to feel that the Nepali Congress had designs against the monarchy itself. Meanwhile, the "palace clique," composed mainly of landowners who feared the Nepali Congress land and tax reform programs, was able to play on the King's fears that he would lose his dominant position unless he moved against the government leaders. Mahendra began to harass the government in various ways. He acted secretly and swiftly on 15 December by ordering the arrest of most of the government and opposition leaders including Prime Minister Koirala, dismissing Parliament, and resorting to direct rule. The Nepali Congress leaders who were able to avoid arrest went to India where they have established an exile movement aimed at their return to power. Nepalese political developments in the near future are likely to be centered on this conflict.

10. The problems involved in governing Nepal as it attempts to make the transition from an isolated medieval society to a modern state

~~SECRET~~

3

are formidable. Nepal's geographic and ethnic divisions make it difficult for any government to develop a national consciousness and establish firm control over the entire country.<sup>1</sup> The country has few readily exploitable resources, and the lack of administrative talent is a major handicap to any efforts to modernize the country. Less than five percent of the people are literate. Nepal's location between India and Communist China severely limits its freedom of maneuver in international affairs. Finally, the failure of the King and the political parties to work out a satisfactory relationship indicates that force and intrigue will be the major determinants of future political trends.

### The King's Position

11. King Mahendra has never demonstrated the qualities of leadership necessary for the difficult tasks that face him. Although the 41-year-old monarch is shrewd at playing off one group against another, he is an uninspiring leader and a poor administrator with only limited knowledge of political and economic matters. He has so far been unsuccessful in his attempts to obtain the services of capable officials. The five members of the Council of Ministers he has chosen to assist him are distinctly second-rate and not particularly loyal to him. In any case, his basic problem will remain to plague him, i.e., the need to give his Ministers adequate power to govern effectively without allowing them to achieve a position which would threaten his control.

<sup>1</sup> Nepal consists of three major areas: the Terai or plains country in the south, the lower mountains and valleys stretching across central Nepal, and the high Himalayan ranges in the north. The country is further divided by north-south ranges, which make Nepal's transportation and communications problems extremely difficult and limit the central government's authority in large parts of the country. The people of the Terai—about one-third of the estimated 9,000,000 population—are ethnically similar to the people of north India. The population of central Nepal—about half of the total—is a mixture of Indian and Mongoloid, and the people of the sparsely settled northern areas are ethnically and culturally closer to the Tibetans than to the other Nepalese.

12. The King's rule has slowed even the moderate rate of progress achieved before the coup. Mahendra has talked of formulating plans to provide limited self-government from the village upwards, while maintaining control through close supervision of the process. He would like to carry out certain social and economic reforms, but since December he has devoted his major attention to maintaining internal security. This preoccupation with security has already caused him to carry out an extensive purge and reorganization of the civil service, which has reduced its already limited ability to administer the country.

13. At the same time, the King's personal rule is supported by a number of important factors. His demonstrated determination to retain his dominance is in itself a considerable asset. Respect for the monarch, regarded by many as a reincarnation of a Hindu deity, is widespread among the people. Political apathy, still prevalent despite the growing popular involvement in political life during the last decade, probably is equally important. Landlords and local officials generally support the monarchy, although these elements have recently become somewhat apprehensive because of Mahendra's talk of the need for reforms. The most important element of the King's power, however, is his control of the country's security forces.

14. Nepal's 10,000 man army is the key unit of the country's security forces, as the 3,500 man armed police force can do little more than carry out its routine law and order functions.<sup>2</sup> The army is poorly equipped and led even by Asian standards despite nearly a decade of effort by an Indian training mission. The army consists of 9 infantry battalions and 9 separate companies, though the latter are generally ineffective. Six of the 9 battalions—including 2 battalions of specially selected troops which comprise the Palace Guard—are located in the Katmandu Valley. One battalion is dispersed throughout central Nepal, and the remaining two battalions are in the lowlands along the Indian border.

<sup>2</sup> The Militia, a paramilitary organization of company-sized units controlled by District Governors, is generally ineffective.

~~SECRET~~

~~SECRET~~

4

Detached units are scattered elsewhere throughout the country. Logistical difficulties are a major obstacle to troop deployment beyond the key centers of population. The army has the capability of quelling most civil disorders that are beyond the ability of the police to control, but probably is not capable of putting down widespread or major disturbances.<sup>3</sup>

### The Opposition Forces

15. The major opposition to the King comes from the Nepali Congress leaders who are in India, since the Nepali Congress units in Nepal, though largely intact, are inactive. With Koirala in jail the exile movement is led by former Deputy Prime Minister Subarna Shumshere, who has long been the party's principal financier. While he lacks Koirala's personal popularity, he is a widely respected and capable leader. The active party workers in India—which apparently number a few hundred at present—come from the ranks of Nepalese students and other residents in northern India. Some elements of the conservative Gurkha Parishad, which emerged from the 1959 elections as the second strongest party in Nepal, are also active in the exile movement, as well as members of some minor parties. The opposition movement apparently has received only moral sympathy and advice—in addition to the right of political asylum—from the Indian Government, but it has received limited support from the Praja Socialist Party of India. The opposition also has been attempting to obtain support—including arms—from other countries, notably Burma and Israel.

16. The movement has developed only limited strength to date, although it apparently has sufficient resources to support its present level of activities. It has been able to maintain contact with local units of the Nepali Congress inside Nepal, and has carried out some

<sup>3</sup>The Nepalese Army is less successful than the British and Indian Armies in its recruiting efforts among the hill peoples—commonly referred to as Gurkhas—in view of the greater rewards and prestige that result from service in the British and Indian Armies. The Nepalese Army also includes non-Gurkha elements.

propaganda activities against the King in various parts of the country. While its organization is the most widespread of any Nepalese party, it probably has suffered somewhat from the King's repression since last December. A more serious weakness is its inability to secure enough arms to provide a reasonable chance of ending the King's direct rule.

17. The Communist Party of Nepal (CPN), which won only eight percent of the votes in the 1959 elections, has a limited but growing ability to influence events in Nepal. The party, which is aided by the Soviet and Chinese Embassies in Katmandu—and to a lesser extent by the Indian Communist Party—has its principal strength in the Katmandu Valley and eastern Nepal. Its membership is probably no greater than 8,000. Nevertheless, this represents a fairly rapid growth over the past two years. Since December the CPN has been aided by the relative freedom permitted the party despite the ban on political parties by King Mahendra, who may view the party as a counterweight to the Nepali Congress. The party has traditionally suffered from serious factionalism, however, and has been divided on the policy to pursue since December. One faction wanted to join with the Nepali Congress in opposing the King, while the other thought that Mahendra's "feudal" rule would eventually provide greater opportunities for the party to exploit. Since the Nepali Congress has refused—at least for the present—to cooperate with the CPN, the latter has so far left the initiative for any widespread agitation against the King to the Nepali Congress. At the same time, it is steadily seeking to infiltrate governmental and other organizations. Thus it hopes to be able to exploit any instability caused by a Nepali Congress insurrection without running the risk of being suppressed should the agitation fail.

### Political Outlook

18. King Mahendra has admitted to the US Ambassador that things are not going well. He is aware of the danger that a prolonged period of direct rule might make him the focus of popular discontent, and probably will make new efforts to obtain the support of more ca-

~~SECRET~~

~~SECRET~~

5

pable and representative political figures. He has made unsuccessful overtures to Subarna Shumshere, apparently in an attempt to secure the latter's services and thus split the Nepali Congress Party. We believe Subarna is unlikely to cooperate with the King unless Koirala and the other Nepali Congress leaders are freed and Parliament restored. While Mahendra might eventually see no alternative to such a compromise, he is unlikely to consent to such conditions in the near future, partly out of fear for Koirala's popularity, but also because such a retreat would mean a drastic reduction in his power. Therefore the King is likely to attempt to secure the services of the leaders of other parties, such as the Gurkha Parishad, but even if he experiences some success along these lines this will not prevent an increase in political unrest and economic deterioration.

19. The Nepali Congress is in the best position to take advantage of this situation, but its ability to do so will depend on its success in securing some army support—or at least passivity. While our knowledge of the attitudes of Nepalese Army leaders is very limited, they appear loyal to the King but unenthusiastic about his assumption of direct rule. In addition, army leaders are not anti-Congress in outlook, and some of the younger officers—who have been educated at military schools abroad—may be in sympathy with the party. Given the prevalent political apathy in Nepal, it is unlikely that a Congress agitational campaign would evoke widespread support at this time. Nevertheless, the capabilities of the opposition movement are likely gradually to increase—especially if it receives outside support. Faced with the prospect of continued political deterioration the army might throw its support to the Nepali Congress, seize power itself, or force the King to compromise with the opposition movement. The choice would depend upon the circumstances at the time. In any event, the loss of army support would result in the downfall of the King from his present dominant position, though he might be retained in a lesser role. If faced with marked adversity, the King might panic and abdicate. On balance, the chances of King Mahendra's government re-

maining in power beyond another year or two are poor.

20. Whatever the outcome of the present political struggle, no government is likely to make more than modest progress in modernizing Nepal in view of the inherent obstacles. The return of Koirala and the moderate socialist Nepali Congress to power probably would result in an improvement in government operations as the Nepali Congress leaders are more capable than Nepal's present leaders. However, having failed in its initial attempt at representative government, Nepal will find it more difficult to make the transition from government by force and intrigue to establishment of the rule of law. Any future government's attempts to carry out a program of reforms will be handicapped by the weakness of the administrative apparatus and the active opposition of vested interests—particularly large landlords—to any moves that adversely affect them. While the authority of the government is likely to be strengthened over time and thus make possible a more rapid pace of modernization, constant struggles for power will result in political stability remaining more of a goal than a reality. Such an environment, particularly if the struggle between the King and the Nepali Congress is an extended one, will result in growing opportunities for the Nepalese Communists.

### Economic Outlook

21. Nepal has been attempting to develop its subsistence economy since 1950, but it has had little success to date. Lack of communications and local capital and the difficulty of exploiting the country's resources have proved to be formidable obstacles to development. Even more important have been the effects of political instability and the weaknesses of the administration. Although the bureaucracy was adequate for its traditional administrative functions, it has operated poorly in its attempts to formulate and execute economic development programs. These development programs have been designed to overcome the lack of transportation and communications facilities and to raise productivity in agriculture. However, Nepal's outmoded fiscal system has prevented the government from

~~SECRET~~

~~SECRET~~

6

obtaining adequate tax revenues and it periodically faces serious financial difficulties. It has been forced to rely almost exclusively on foreign aid for its development projects. Nepal had received aid commitments of \$144 million by the end of 1960, but only about 40 percent has been expended to date.<sup>4</sup>

22. The outlook for any significant economic growth during the next few years is poor, and living standards will remain among the lowest in Asia. Indeed, the King's preoccupation with maintaining internal security will make it difficult for the government to maintain even the slow pace of recent years. Under present conditions, a large infusion of foreign aid probably would not accelerate development to any significant extent, particularly since the civil service is badly overstrained attempting to manage the projects already under way. However, in view of the limited impact of the development program to date and the primitive nature of the economy it is doubtful that a lack of overall economic progress will antagonize enough people in the country to cause serious unrest in the near future. A breakdown of the traditional economy from floods or famine would be a more serious matter, as the government's capabilities for alleviating any such distress are limited. Nevertheless, a slowdown in the development program—brought about by a domestic financial crisis or a reduction in foreign aid—probably would eventually create unrest, particularly among politically conscious elements.

23. No matter who governs Nepal, no more than limited economic progress is likely until transportation and communications facilities

**'FOREIGN AID COMMITMENTS TO NEPAL'**  
1951-1960

(millions of dollars)

India .....	51.7	
United States .....	43.5	
Other Free World .....	7.6	
Total Free World .....		102.8
Communist China .....	33.7	
Soviet Union .....	7.5	
Total Communist Bloc .....		41.2
Total Foreign Aid .....		144.0

<sup>4</sup> All aid to Nepal has been on a grant basis.

are improved, the shortage of technicians and administrators alleviated, and the efficiency of the government's administrative apparatus improved. In time, expansion of the land under cultivation and improved agricultural techniques may raise agricultural output above present low levels. In addition, Nepal has extensive timber resources and hydroelectric potential—along with more modest mineral resources—which offer prospects for moderate economic growth in the future.

**International Affairs**

24. Nepal's foreign relations are dominated by the rivalry between India and Communist China for influence in the country. Another factor of lesser but growing importance in recent years has been the competition between the US and the USSR. Nepal regards its membership in the Afro-Asian group in the UN as a means of preserving its independence; it has often voted with the group against the US position on East-West issues. Mahendra, like virtually all Nepalese leaders, is convinced that a neutralist foreign policy is the only one which offers a reasonable hope of preserving the country's independence and extracting from the competing nations the maximum foreign aid consistent with this goal.

25. The King, at the same time, is more suspicious of India than are the Indian-oriented Nepali Congress leaders. In addition to fearing that republican sympathies emanating from India may threaten his throne, he is more suspicious that India aspires to a degree of influence in Nepalese affairs which could threaten the country's independence. This suspicion has caused the King to adopt a more cooperative—though still cautious—attitude toward Communist China.

26. The Chinese Communists are aware that Mahendra's attitude since the coup offers them an opportunity to expand their influence in Nepal. Peiping has privately expressed to the King approval of the December coup, and has renewed its invitation to visit China later this year—an invitation accepted by the King. It has also adopted a conciliatory posture in the Sino-Nepalese boundary negotiations, and

~~SECRET~~



~~SECRET~~

7

a border treaty appears likely in the near future. In addition, the Chinese have offered further aid, particularly for constructing a road between Katmandu and the Tibetan border. Although the King hopes to avoid any substantial increase in Peiping's influence, he appears convinced that he can use the threat of reliance on the Chinese to keep India from trying to unseat him. For example, he has privately threatened to call on the Chinese if India should intervene in Nepal. He has also curtailed the flow of Tibetan refugees into Nepal and may even have agreed to joint Sino-Nepalese military operations inside Nepal against Tibetan rebel bands if they attempt to harass the Sino-Nepalese border demarcation terms.

27. India's major interest in Nepal is to preserve its integrity as a key element in the Indian security position. Indeed, Nehru has publicly stated that India's Himalayan defense perimeter runs along Nepal's northern border.<sup>5</sup> The two countries have a treaty calling for consultation if the security of either is threatened.<sup>6</sup> India's policy in Nepal has long been designed to encourage the emergence of a stable and progressive—as well as pro-Indian—government as providing the best insurance against Communist influence. Thus New Delhi has provided an Indian military training mission to increase the effectiveness of the Nepalese Army, and has extended sizable foreign aid to enable Nepal to embark

<sup>5</sup> India also regards the isolated Himalayan frontier states of Sikkim and Bhutan as falling within its defense line, and has moved to increase its capabilities to defend them. The number of Indian troops in Sikkim—an Indian protectorate—has been substantially increased, and New Delhi intends to retain its control of the state. Bhutan, though semi-independent and traditionally suspicious of India, has recently been moved by fear of Chinese expansionism to increase its ties with New Delhi. The first road from India into Bhutan has been completed and a small number of Indian troops permitted to enter Bhutan, which will increase India's ability to influence and defend the area.

on a program of economic development. At the present time, India appears primarily concerned with the threat to stability in Nepal, and has continued its aid programs and assured the King it will do nothing to subvert his regime. At the same time, India is likely to encourage Mahendra to reach a compromise with the Nepali Congress, although in the event of an extended struggle Indian support is likely to be increasingly engaged on the side of the Nepali Congress.

28. Nevertheless, we believe that India will pursue a cautious course, lest it jeopardize its other activities in Nepal. These include the manning of border posts along the Nepalese-Tibetan border and the right to recruit Gurkha troops. There are 29 battalions of Gurkhas totaling about 27,000 men in the Indian Army. Such rights are dependent upon the King's pleasure. More important, however, is India's fear that Mahendra, if pushed too hard, might carry out his threat to seek Communist military support, which would force India to intervene militarily in Nepal. While India could secure the southern lowlands and probably the Katmandu Valley and other points in central Nepal, the Chinese—who control two key passes north of Katmandu—could take over much of northern Nepal and thus greatly increase Indian difficulty in securing its Himalayan frontier.

29. Nepal's relations with the West probably will continue to be relatively good. The UK's principal interest in Nepal in recent years has been the recruitment of Gurkha soldiers. Nearly 15,000 Gurkhas are now in the UK armed forces. Despite the nationalist objections of some Nepalese to such recruiting, the foreign exchange provided by such an arrangement is important enough to make its continuation likely. Nepal regards the US as occasionally too willing to defer to Indian policy toward Nepal—particularly in the coordination of aid programs. Nevertheless, Nepal regards the US primarily as a country which can be relied on to aid its economic development efforts without threatening its independence.

50X6

~~SECRET~~

~~SECRET~~

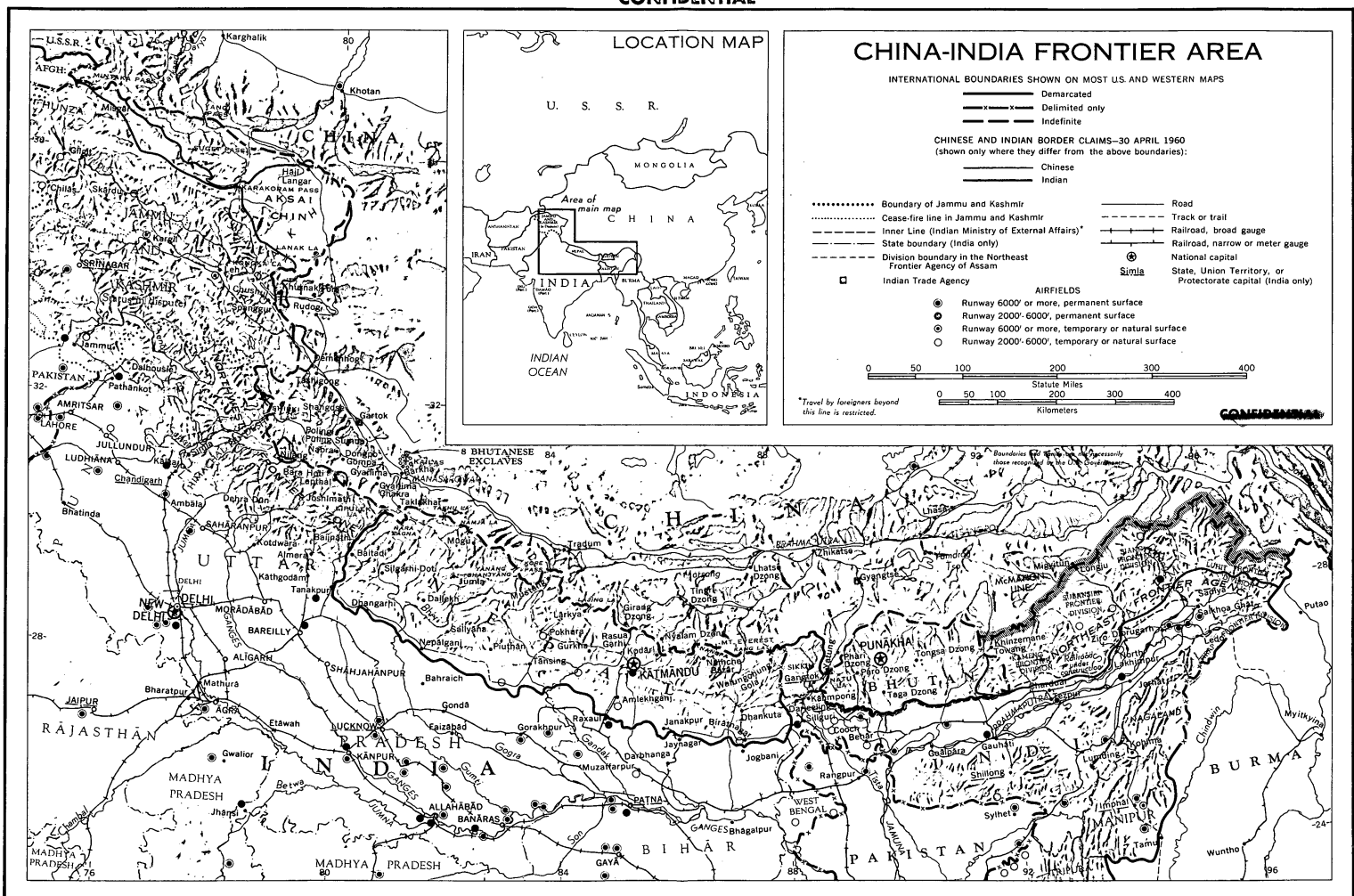
8

30. Soviet activities in Nepal, which have increased substantially in recent years, appear designed chiefly to establish a USSR presence in the country and to counter Western—and Indian—influence. The USSR has maintained amicable relations with the monarchy and is moving forward to carry out its economic aid program. Moscow has demonstrated its willingness to act against Indian wishes by

agreeing to survey, and possibly construct, Nepal's first east-west road. Such a road would lessen Nepal's dependence on India as it would no longer be necessary to use the Indian transportation system for east-west travel. Although Nepal probably will be receptive to future Soviet aid offers, it will continue to maintain a cautious attitude toward the USSR.

~~SECRET~~

**CONFIDENTIAL**



**CONFIDENTIAL**

~~SECRET~~

~~SECRET~~